



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 3/6/2008

GAIN Report Number: PK8009

Pakistan

Grain and Feed

Annual Report 2008

2008

Approved by:

Margaret E. Thursland
Agricultural Counselor
U.S. Embassy Islamabad

Prepared by:

Asmat Raza
Agricultural Specialist

Report Highlights:

Pakistan's MY 2008/09 wheat production is forecast at 21.5 MMT. Imports are estimated at 1.5 MMT. Despite a good MY 2007/08 harvest, Pakistan remained in the grip of a severe wheat crisis which led to 1.7 MMT wheat imports. The GOP's lack of a coordinated commodity policy, unreliable production data and an inability to respond to global marketing dynamics are major contributors to Pakistan's wheat crisis.

Pakistan's MY 2008/09 rice production is forecast at 5.6 MMT with higher production of both IRRI and Basmati rice. MY 2007/08 rice exports are forecast at 3.05 MMT. Rice is a major Pakistani agricultural export to the United States. During 2007, Pakistan rice exports to the U.S. were valued at \$14.5 million.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Islamabad [PK1]
[PK]

Table of Contents

EXECUTIVE SUMMARY	3
WHEAT	3
Production	3
Table 1: Wheat Production, Supply and Demand	3
Consumption.....	4
Trade.....	5
Stocks	5
Policy	5
RICE	6
Table 2: Rice Production, Supply and Demand.....	6
Production	7
Consumption.....	7
Trade.....	7
Stocks	8
Policy	8
OTHER RELEVANT REPORTS.....	8
APPENDIX 1. PAKISTAN WHEAT TENDER SPECIFICATIONS	9

EXECUTIVE SUMMARY

Pakistan's MY 2008/09 wheat production is forecast at 21.5 MMT, 8 percent less than last year's production due to reduction in the crop area and lesser availability and use of water and production inputs and government reluctance to raise procurement price. Imports are estimated at 1.5 MMT due to expected lower production and government policy to maintain strategic reserves. In spite of a good harvest during MY 2007/08, Pakistan remained in the grip of a severe wheat crisis which led to 1.7 MMT wheat imports.

Pakistan's MY 2008/09 rice production is forecast at 5.6 MMT based on higher production of both IRRI and Basmati rice. MY 2008/09 rice exports are forecast at 3.05 MMT. The share of basmati varieties is increasing as compared to coarse varieties, mainly due to an increase in market demand and better prices. The United Arab Emirates (UAE), Saudi Arabia, Malaysia, Kuwait, Mauritius and Iran are the major exporting destinations while EU and the United States are emerging markets.

WHEAT

Production

Table 1: Wheat Production, Supply and Demand

PSD Table									
Country	PAKISTAN								
Commodity	WHEAT UOM (MT/HA(1000HM) (1000 MT) (MT/HA								
	REVISED 2006			ESTIMATE 2007			FORCAST 2008		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		05/2006	05/2006		05/2007	05/2007		05/2008	05/2008
Area Harvested	8355	8355	8355	8400	8400	8400	0	0	8200
Beginning Stocks	3264	3152	3264	2919	3152	2919	3519	2652	2719
Production	21700	21700	21277	23000	21800	23300	0	0	21500
MY Imports	55	200	815	1000	200	1700	0	0	1500
TY Imports	55	200	55	1000	200	1700	0	0	1500
TY Imp. from U.S.	55	0	55	0	0	0	0	0	0
Total Supply	25019	25052	25356	26919	25152	27919	3519	2652	25719
MY Exports	200	0	250	1000	500	2200	0	0	300
TY Exports	200	0	250	1000	500	2200	0	0	300
Feed Consumption	400	400	687	400	400	1000	0	0	419
FSI Consumption	21500	21500	21500	22000	21600	22000	0	0	22500
Total Consumption	21900	21900	22187	22400	22000	23000	0	0	23219
Ending Stocks	2919	3152	2919	3519	2652	2719	0	0	2200
Total Distribution	25019	25052	25356	26919	25152	27919	3519	2652	25719
Yield	2.59725	2.597247	2.546619	2.7381	2.595238	2.77381	0	0	2.621951

MY 2008/09 production is forecast at 21.5 MMT, 8 percent lower than last year's production of 23.3 MMT. The projected decrease in production is due to a reduction in crop area, reduced availability and use of water and production inputs, and government reluctance to raise the procurement price. The 21.5 MMT production forecast represents potential production and assumes no further deterioration in the condition of the crop before harvest scheduled to begin in the later half of March.

Decreased fertilizer use is one important factor that will determine final crop size. Total fertilizer nutrient off take during October-January decreased significantly compared with the same period during last season. Use of phosphate fertilizer decreased by 40 percent due to a sixty percent increase in price over last year.

Water available for agricultural irrigation this year is 22% lower than the normal availability of 36 million acre feet (MAF). Stored water for irrigation is held mainly in two large reservoirs, Tarbela and Mangla, for use during the summer and during the "Rabi," or winter growing season. About two-thirds of the country's water for irrigation is sourced from snow and glacier melts, with the remainder derived from seasonal monsoon rains.

Since the irrigation system was completed in the 1970s, demand has increased by more than 50 percent while storage capacity has decreased one-third due to silting. This has left per capita availability at a fraction of its original level. As a result, chronic shortfalls in water available for irrigation are expected to impose an increasingly larger constraint on Pakistan's agricultural advancement.

In Sindh Province, the shortage of water is more severe than last year and a lesser average yield than last year is expected. Ground water in most areas is alkaline and not fit for tube well irrigation, necessitating a greater reliance on canal water. In Punjab Province, where extensive tube well irrigation is utilized, the crop is generally considered to be in normal condition as of March 7, 2007. With the bulk of the Punjab crop about to enter the grain-formation stage, moderate temperatures, water availability and sunlight during the month of March will be critical for the success of this year's output. The condition of highland crop, which comprises 10 percent of total production, is in better shape helped by the favorable weather conditions.

The 2007/08 crop output forecast of the Ministry of Agriculture (MINFAL) is 24 MMT. MINFAL's production target is based on a harvest of 18 MMT in Punjab. However, late wheat sowing in rice, cotton and sugar cane areas of Punjab and Sindh will negatively effect production.

Consumption

Wheat flour is the staple diet for most of the Pakistani population. There are about 1,000 flour mills in Pakistan. Millers are feeding 40 per cent of the urban and non-wheat growing area population. Millers have been keeping their own wheat stocks intact while releasing flour into the market processed from government wheat stocks. The Government of Pakistan (GOP) is releasing 31,800 MT per day (954,000 MT per month) of wheat from government stocks to feed 60 per cent of the population at the Government Issue Price which, at present, is about half of the market rate. In the last marketing year (2006-07), the GOP released 925,000 MT per month, or 30,800 MT per day; while in 2005-06, GOP wheat releases were around 800,000 MT per month.

Pakistan's total milling requirement is 54,356 tons per day, given a total population of 160 million with per capita annual consumption of 124 kilos per year. Flour mills are receiving 31,800 tons of wheat per day from the government, sufficient to feed 60 per cent of the total

population. Out of 160 million people, 70 percent live in rural areas. All of the rural population and some of the urban population consume flour from their own personal stocks of wheat – either grown themselves or by relatives.

Consumer preferences are shifting from traditional flat bread to western style loaf bread, particularly in urban areas where western bread is viewed as a convenient breakfast food. Traditional home-ground flour is also losing favor to commercially produced flour. The change in preference from higher whole grain to lower extraction flour is translating to greater consumption of wheat. Demand for specialized products is also expected to increase in response to changing lifestyles which are more supportive of western-style fast food chains recently introduced into Pakistan.

Trade

While Pakistan is traditionally a wheat importer, good harvests over the past several years resulted in no major wheat imports. A record harvest last year led the GOP to lift the three and a half year ban on wheat exports in April 2007. The decision led to an increase in wheat prices followed by reinstatement of the ban in May 2007. The export ban was not helpful in stabilizing the market as wheat and wheat flour continued to be smuggled to neighboring countries. The situation led to severe wheat shortages and a serious wheat crisis emerged. The effects of the wheat crisis in Pakistan spilled into the political arena. According to analysts, the wheat crisis was among one of the top reasons for the defeat of pro-Musharraf parties in the crucial February 2008 general elections.

To compensate for rising wheat shortages, the GOP decided to import wheat. Since September 2007, the GOP has placed orders for the purchase of 1.7 MMT of wheat valued at US\$ 801.5 million through the Trading Corporation of Pakistan (TCP). During the current marketing year, Pakistan officially exported 500,000 MT of wheat - but market sources estimate Pakistan's total exports closer at about 2.2 MMT if illegal cross border trade with Afghanistan, Iran and India is taken into account.

See Appendix 1 for standard wheat specifications and type for Government of Pakistan tenders.

Stocks

The GOP holds most stocks through various Provincial Food Departments and a federal agency known as the Pakistan Agricultural Storage and Services Corporation (PASSCO). MY 2008/09 opening stocks of the government food departments have been forecast at 1.9 MMT. The Government has fixed a procurement target of 5 MMT which will be difficult to achieve due to the GOP's reluctance to raise the official procurement price.

Policy

Pakistan maintains a minimum guaranteed support price for wheat. The Government of Pakistan, through Provincial Food Departments, procures wheat from farmers at the support price and then releases wheat to flour mills at a government fixed issue price. The system aims to protect farmers from price fluctuations and ensure a minimum return in view of post harvest gluts, fragmented commodity markets, and poor storage capacity on the farm. At present, the government support price is \$177 per MT while the issue price is \$194 per MT. The main factor behind the current wheat crisis in Pakistan is the differential between domestic and world wheat prices. Pakistan's wheat prices remain the cheapest in the world. Flour mills pay the GOP's issue price of \$177 per MT, while the average world price of wheat is around \$500 per MT. The difference in price serves as strong incentive for smuggling to

neighboring countries. Wheat is largely being smuggled to India and Iran while flour is smuggled to Afghanistan.

The GOP is importing wheat only through the public sector Trading Corporation of Pakistan (TCP). At this time, private sector imports are not allowed and the export of wheat and wheat flour is banned. This policy is a reversal of earlier GOP commitments to encourage private sector wheat trade. The GOP is also providing a subsidy on imported wheat. The estimated government subsidy on wheat imported since September 2007 is estimated at approximately \$480 million.

The GOP's lack of a coordinated commodity policy, less than reliable production data, weak political will and the inability of concerned Ministries to respond to global marketing dynamics are among the key contributors to last year's wheat crisis in Pakistan - despite a good harvest.

RICE

Table 2: Rice Production, Supply and Demand

PSD Table									
Country	PAKISTAN								
Commodity	RICE MILLED UOM (MT/HA(1000HM) (1000 MT) (MT/HA								
	REVISED 2006			ESTIMATE 2007			FORCAST 2008		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		11/2006	11/2006		11/2007	11/2007		11/2008	11/2008
Area Harvested	2575	0	2575	2550	0	2550	0	0	2600
Beginning Stocks	296	0	296	460	0	460	520	0	520
Milled Production	5200	0	5200	5400	0	5500	0	0	5600
Rough Production	7801	0	7801	8101	0	8251	0	0	8401
Milling Rate (.9999)	6666	0	6666	6666	0	6666	0	0	0
MY Imports	0	0	0	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	5496	0	5496	5860	0	5960	520	0	6120
MY Exports	2600	0	2600	2900	0	3000	0	0	3050
TY Exports	2600	0	2600	2900	0	3000	0	0	3050
Total Consumption	2436	0	2436	2440	0	2440	0	0	2520
Ending Stocks	460	0	460	520	0	520	0	0	550
Total Distribution	5496	0	5496	5860	0	5960	0	0	6120
Yield	3.0295	0	3.029515	3.17686	0	3.235686	0	0	3.231153

Production

MY 2008/09 rice production is forecast at 5.6 MMT, based on a marginal increase in area and expanded planting of improved rice varieties. In MY 2007/08, production is estimated as 5.5 MMT. Basmati production totaled 2.5 MMT and IRRI production totaled 3.0 MMT.

During MY07/08, production is almost at last year's level despite outbreaks of bacterial leaf blight in Punjab and floods in Sindh. Water availability during the critical March-May period will depend on the amount of precipitation in the catchments areas. If a cut in water distribution during this period occurs, the effect would be more pronounced on IRRI rice acreage than Basmati. IRRI rice is generally grown in Sindh, relying largely on canal irrigation; while Basmati is grown in Punjab employing large-scale tube well irrigation. Based on the source of water input and current water availability, both types of rice are expected to be sown on time. Since 2000, the GOP discontinued setting a procurement price for paddy and milled rice and abandoned rice procurement through state trading enterprises.

Consumption

Rice is not a staple commodity in the Pakistani diet. Its consumption is increasing slowly as compared to wheat, mainly due to consumer preference patterns and an increase in rice prices. About 45 to 50 percent of the crop is destined for local consumption while the remainder is exported.

Pakistanis, in general, prefer the higher priced basmati rice which is mainly consumed by the more affluent. IRRI and other varieties are largely consumed by the less affluent due to the price differential.

The GOP does not maintain official grade standards for rice. An estimated 150,000 MT of 40-100 percent broken rice is used in poultry feed annually. However, due to this year's higher rice prices and low domestic wheat prices, the normal utilization of broken rice in poultry feed has declined by almost 40 percent.

Trade

Pakistan is a major exporter of rice. MY 2008/09 export volume is projected at 3.05 MMT, consisting of 1.65 MMT of basmati and 1.4 MMT of IRRI rice varieties. The share of basmati varieties is increasing as compared to coarse varieties, mainly due to an increase in market demand and better global prices. The United Arab Emirates, Saudi Arabia, Malaysia, Kuwait, Mauritius and Iran are the major export destinations while the EU and the United States are emerging markets. India is Pakistan's main competitor, especially for basmati.

Rice is a major Pakistani export to United States. Out of \$55 million in Pakistani agricultural exports to the United States during 2007, rice exports comprised \$14.5 million (27 percent) of the total.

Rice exports for MY 2007/08 are projected at 3 MMT. During MY 2006/07, Pakistan exported 907,906 MT (839,002 MT in 2005/06) of basmati rice and 2,221,236 MT (2,849,740 in 2005/06) of IRRI rice. The increase in rice exports, mainly basmati, is largely due to better market conditions.

Rice trade is conducted by the private sector, as the state-owned Rice Export Corporation was abolished in the early 90's. Another state trading agency, the Trading Corporation of Pakistan (TCP), plays a limited role in the rice trade by facilitating government-to-government exports through the private sector. The GOP, in consultation with the Rice

Exporters Association of Pakistan (REAP), established a quality review committee to certify the quality of Pakistani rice prior to shipment in an effort to boost the image of Pakistani rice, especially basmati. REAP is an influential trade body which advises concerned Ministries in the formulation of rice policy.

Stocks

MY 2007/08 ending stocks are projected to marginally increase due to a slight increase in production. All stocks are held by the private sector and are in small lots.

Policy

There is no restriction on rice exports. Government policy is to facilitate and expand rice exports through the private sector. A 10 percent import duty and 15 percent sales tax is imposed on all rice imports.

OTHER RELEVANT REPORTS

REPORT #	SUBJECT	DATE SUBMITTED
PK7011	Grain & Feed Update	06/04/2007
PK7020	Pakistan to Import 1 Million Ton wheat	09/18/2007
PK7034	Backup for Current Wheat shortage	12/20/2007
PK7035	December Wheat Situation Update	12/20/2007

To reach FAS/Islamabad, email us at AgIslamabad@usda.gov

APPENDIX 1. PAKISTAN WHEAT TENDER SPECIFICATIONS

The following table indicates the standard wheat specifications for recent tenders of the Trading Corporation of Pakistan. Please note the specs call for GM free and new crop wheat.

Type	Soft White or Medium Hard White Wheat US Grade-2 or better Australian White Milling Wheat Canadian Wheat Board Western Canadian Chappati Wheat Russian or Central Asian Republic Milling Wheat
Test weight	78 kg/HL minimum
Shrunken, broken and shriveled kernels	2% maximum
Damaged grains	3% maximum
Protein content	10% minimum (dry weight basis)
Moisture content	12% maximum
Foreign matter	1% maximum; 2% for Russia
Wet gluten	27% minimum
Falling number	250 per second minimum
Color	Original color, shape and texture
Aflatoxin	Less than 30 parts per billion
Dcoxynivalenol	Less than 1,000 parts per billion
Quarantine and exotic weed seeds	Should meet quarantine requirements of Pakistan
Dioxin	Within WHO permissible limits
Live insects/larvae	Free from live insects and their larvae
GMO	Not genetically modified
Heavy metals	Within WHO permissible limits
Special requirements	a) Free from smut, ergot, fungus, curygaster, striga b) Free from karnal bunt c) Fit for human consumption d) Treated with phosphene at or immediately prior to loading at the rate of 3 gms. of Phosphine active ingredient per cubic meter volume of wheat grain or as prescribed under law of country of origin. e) Fresh crop stocks, free from rodent residues and poisonous seeds except to the extent indicated. f) Radioactivity within WHO permissible limits